

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 EA-07 ISO-00 CAB-02 CIAE-00 COME-00

DODE-00 DOTE-00 INR-07 NSAE-00 CIEP-01 FAA-00 L-03

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC 9936

INFO AMEMBASSY BONN

AMEMBASSY PARIS

AMEMBASSY THE HAGUE

AMEMBASSY ROME

AMEMBASSY TOKYO

AMEMBASSY BRUSSELS

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E.O. 11652: N/A

TAGS: EAIR, UK

SUBJECT: CIVAIR: UK AEROSPACE INDUSTRY - WAITING IN
THE WINGS

1. EMBASSY OFFICERS MET WITH UNDER SECRETARY ANTHONY WARRINGTON, HEAD OF THE DEPT. OF INDUSTRY AIR DIVISION RECENTLY TO REVIEW THE STATUS OF THE BILL TO NATIONALIZE THE UK AEROSPACE INDUSTRIES AND THE GENERAL SITUATION FACING UK MANUFACTURERS. HE HAD ALSO HEADED THE CONCORDE DIVISION AT DOI WHICH WAS MADE PART OF THE AIR DIVISION LATE LAST YEAR. THE WORK BECAME TOO TIME CONSUMING, HOWEVER, AND THE CONCORDE DIVISION HAS NOW BEEN REESTABLISHED AS A SEPARATE UNIT AT DOI.

2. NATIONALIZATION BILL: WARRINGTON NOTED THAT THE BILL IS EFFECTIVELY STALLED IN THE HOUSE OF LORDS WHILE A COMMITTEE OF THAT BODY CONSIDERS WHETHER OR NOT THE
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LEGISLATION IS "HYBRID," I.E., WHETHER OR NOT SOME PERSONS OR FIRMS IN THE INDUSTRY ARE NOT INCLUDED IN THE BILL, THUS TREATING UNFAIRLY THOSE WHICH ARE INCLUDED. THIS PROCESS COULD EASILY EXTEND OVER SEVERAL MONTHS, EVEN TO THE COMPLETION OF THE PRESENT PARLIAMENTARY SESSION EXPECTED IN NOVEMBER. IF THE LORDS WERE TO DECIDE SOON THAT THE BILL IS NOT HYBRID, IT COULD BE

ENACTED IN SHORT ORDER, PERHAPS AS EARLY AS MID-MARCH, BUT THIS SEEMS UNLIKELY. BRITISH AIRCRAFT CORPORATION, WARRINGTON SAID, CANNOT OBTAIN MORE FUNDS FROM THE GOVERNMENT UNTIL NATIONALIZATION IS COMPLETED. HAWKER-SIDDELEY, WHICH HAD PREVIOUSLY BEEN WILLING TO INVEST SOME OF ITS OWN FUNDS NOW, LOOKING TOWARD EVENTUAL NATIONALIZATION, IS NO LONGER WILLING TO DO SO. THE AS YET UNOFFICIAL BRITISH AEROSPACE BOARD, HEADED BY LORD BESWICK, CONTINUES FOLLOWING AEROSPACE DEVELOPMENTS WITH A SMALL STAFF. HOWEVER, THE BOARD HAS NO AUTHORITY TO ACT AND WILL NOT HAVE UNTIL SUCH TIME AS THE NATIONALIZATION BILL BECOMES LAW. IN THIS REGARD, IT WAS REPORTED JAN. 25 THAT THREE MORE MEMBERS OF THE ORGANIZING COMMITTEE OF BRITISH SHIPBUILDERS (THE PARALLEL ORGANIZATION TO THE BRITISH AEROSPACE BOARD IN THE SHIP CONSTRUCTION INDUSTRY) HAVE RESIGNED BECAUSE OF PARLIAMENTARY DELAYS IN PASSING THE NATIONALIZATION BILL AND THE FACT THAT VESTING DAY FOR THE NEW CORPORATIONS HAS NOW RECEDED TO THE END OF THE YEAR. GRAHAM DAY, CHIEF EXECUTIVE DESIGNATE OF THE COMMITTEE (LORD BESWICK'S COUNTERPART) HAD RESIGNED AT THE END OF 1976 FOR SIMILAR REASONS. THE CLEAR IMPRESSION OF INDUSTRY OBSERVERS IS THAT THE UK IS DESPERATELY TRYING TO KEEP ITS OPTIONS FOR COOPERATIVE AEROSPACE PROJECTS WITH THE EUROPEANS AND AMERICANS OPEN AND HOPING THAT DECISIONS WILL NOT BE REACHED BY POTENTIAL PARTNERS BEFORE THE UK IS IN A POSITION TO ACT.

3. CONCORDE: THERE SEEMS NO POSSIBILITY THAT BRITISH AIRWAYS WILL FIND A USE FOR ANY OF THE FIVE UNSOLD LIMITED OFFICIAL USE

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CONCORDE AIRCRAFT STILL BEING ASSEMBLED. ACCORDING TO WARRINGTON, EVEN IF ROUTES TO NEW YORK AND AUSTRALIA WERE TO COME INTO OPERATION, THE PRESENT BA CONCORDE FLEET WILL BE LARGE ENOUGH TO HANDLE EXPECTED DEMAND. THE ONLY LIKELIHOOD FOR PUTTING THE FIVE ADDITIONAL AIRCRAFT INTO SERVICE SEEMS TO BE THROUGH LEASING ARRANGEMENTS (SINGAPORE AND PHILIPPINE AIRLINES ARE PROSPECTS) OR JOINT USE AGREEMENTS BETWEEN BA AND OTHER CARRIERS SUCH AS IS BEING CONSIDERED BY BRANIFF BETWEEN WASHINGTON AND HOUSTON WITH, PERHAPS, CONNECTING SERVICE TO LATIN AMERICA. ORDERS BY THE IRANIANS AND PRC ARE NOT EVEN BEING DISCUSSED NOW.

4. HAWKER SIDDELEY-146: WARRINGTON NOTED THAT THE FUNDS MADE AVAILABLE TO HS (3.5 MILLION POUNDS) TO COMPLETE RESEARCH AND DEVELOPMENT ON THE HS-146 PROJECT IN AUGUST 1976 HAVE BEEN EXPENDED. AT THE TIME THAT ADVANCE WAS MADE TO HSA, IT WAS EXPECTED THAT BRITISH AEROSPACE WOULD BE IN OPERATION BY LATE IN 1976. SINCE THE NATIONALIZA-

TION BILL HAS STILL NOT BEEN ENACTED, THE GOVERNMENT WILL
HAVE TO CONSIDER IN THE NEXT FEW WEEKS WHETHER OR NOT TO
CONTINUE TO SUPPORT THE PROJECT AND FIND THE FUNDS TO DO

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SO IF THE DECISION IS POSITIVE. A NEGATIVE DECISION
WOULD RESULT VERY QUICKLY IN LOSS OF EMPLOYMENT AT
HAWKER'S AND COULD RESULT IN CLOSING OFF THE OPTION OF
GOING AHEAD WITH THE PROJECT WHEN THE NATIONALIZATION BILL
IS SIGNED.

5. COMMENT: THE DELAYS ENCOUNTERED BY THE LABOR GOVERN-
MENT IN OBTAINING PARLIAMENTARY APPROVAL OF THEIR
NATIONALIZATION BILL HAVE THE POTENTIAL FOR BEING MORE
DESTRUCTIVE TO THE MAJOR UK CIVIL AIRCRAFT MANUFACTURERS
THAN ANYTHING THAT COULD BE EXPECTED TO RESULT FROM
NATIONALIZATION. THIS IS A CRUCIAL PERIOD FOR THE
WORLD'S AIRCRAFT MANUFACTURERS. THE ONLY PRACTICABLE WAY
TO FUND THE COST OF DEVELOPMENT OF NEW AIRCRAFT TYPES IS
THROUGH COOPERATIVE ARRANGEMENTS BETWEEN TWO OR MORE OF
THE MAJOR PRODUCERS. UNFORTUNATELY, THE UNCERTAINTIES

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PRODUCED BY THE DELAYS IN ENACTING THE NATIONALIZATION BILL HAVE CREATED A SITUATION IN WHICH NEITHER THE UK GOVERNMENT NOR THE MANUFACTURERS ARE NOW IN A POSITION TO MAKE BINDING COMMITMENTS TO POTENTIAL COLLABORATORS. THE UK HAS BEEN TRYING TO KEEP ITS OPTIONS OPEN AS EVIDENCED BY THE CONTINUING TALKS THEIR DEPT. OF INDUSTRY REPRESENTATIVES HAVE BEEN HAVING WITH THEIR EUROPEAN COUNTERPARTS AND US AND EUROPEAN MANUFACTURERS. HOWEVER, UNLESS STABILITY IS RETURNED TO THE UK INDUSTRY SOON BY EITHER A CLEAR YES OR NO DECISION ON NATIONALIZATION, THE US, EUROPEAN AND JAPANESE AIRCRAFT MANUFACTURERS MAY BE FORCED TO REACH AGREEMENTS EXCLUDING THE UK. IF THIS HAPPENS, FUTURE PROSPECTS FOR THE UK CIVIL AIRCRAFT MANUFACTURERS WOULD BE DIM INDEED. IN SPITE OF THIS GLOOMY PICTURE, IT SHOULD BE BORNE IN MIND THAT THE UK AEROSPACE INDUSTRY IS STILL ALIVE AND WELL. TOTAL EXPORTS OF AEROSPACE PRODUCTS FOR 1976 ARE EXPECTED TO REACH A RECORD LEVEL OF ALMOST 900 MILLION POUNDS (750 MILLION POUNDS FOR THE FIRST TEN MONTHS). IT IS SIGNIFICANT THAT ALMOST HALF OF THIS TOTAL WAS MADE UP OF THE SALE OF AIRCRAFT AND PARTS; ENGINES AND PARTS MADE UP MOST OF THE REMAINDER. IF THIS PERFORMANCE IS TO CONTINUE, THE UK MUST CREATE AN ENVIRONMENT IN WHICH ITS AIRCRAFT PRODUCERS WILL BE IN A POSITION TO TAKE A SIGNIFICANT PART IN THE DEVELOPMENT AND PRODUCTION OF AIRCRAFT IN THE 1980'S.

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